

**Deloitte &
Touche**



Town of Brookline, Massachusetts

*General Purpose Financial Statements
and Required Supplementary Information
and Supplemental Schedules for the
Year Ended June 30, 1998
and Independent Auditors' Report*

TOWN OF BROOKLINE, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Board of Selectmen
Town of Brookline, Massachusetts:

We have audited the accompanying general purpose financial statements of the Town of Brookline, Massachusetts (the "Town") as of and for the year ended June 30, 1998 (December 31, 1997 for the Pension Trust Fund) and for the year then ended, listed in the foregoing Table of Contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board ("GASB") Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," requires disclosure of certain matters regarding the Year 2000 issue. The Town has included such disclosures in Note 18. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Town's disclosures with respect to the Year 2000 issue made in Note 18. Further, we do not provide assurance that the Town is or will be Year 2000 ready, that the Town's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Town does business will be Year 2000 ready.

In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, such general purpose financial statements present fairly, in all material respects, the financial position of the Town of Brookline, Massachusetts, as of June 30, 1998 (December 31, 1997 for the Pension Trust Fund) and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust funds for the year then ended; and changes in assets and liabilities of the Agency Funds for the year then ended, in conformity with generally accepted accounting principles.

As described in Note 1 to the financial statements, the Town implemented GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," and changed its method of financial reporting in accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

As discussed in Note 1, the Town changed its method of accounting for its workers' compensation risk financing activities.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying required supplementary information and supplemental schedules listed in the foregoing Table of Contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. These schedules are also the responsibility of the Town's management. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

Deloitte & Touche LLP

March 26, 1999

TOWN OF BROOKLINE, MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1998 (EXCEPT FOR THE PENSION TRUST FUND WHICH IS AS OF DECEMBER 31, 1997)

	Governmental Fund Types			Proprietary Fund Type		Fiduciary Fund Types			Account Groups			Total (Memorandum Only)	
				Internal									
	General	Special Revenue	Capital Projects	Service Fund		Trust and Agency	Pension Trust		General Long-Term Obligations	Fixed Assets		1998	1997 (As Restated)
ASSETS AND OTHER DEBITS													
CASH AND CASH EQUIVALENTS	\$ 25,112,803	\$ 3,283,669	\$ 18,381,935	\$ 3,635,295		\$ 3,028,020	\$ (97,393)		\$ -	\$ -		\$ 53,344,329	\$ 51,239,694
INVESTMENTS	-	-	-	-		9,969,219	120,393,025		-	-		130,362,244	112,934,628
RECEIVABLES:													
Property taxes	1,045,194	-	-	-		-	-		-	-		1,045,194	1,408,373
Property tax liens	949,863	-	-	-		-	-		-	-		949,863	997,767
Motor vehicle excise	1,542,592	-	-	-		-	-		-	-		1,542,592	1,522,247
Departmental	306,092	-	-	-		178,690	-		-	-		484,782	544,480
Intergovernmental	-	1,772,924	-	-		-	-		-	-		1,772,924	2,438,117
User charges	3,118,176	-	-	-		384,356	-		-	-		3,502,532	1,925,265
Accrued interest	-	-	-	-		-	829,942		-	-		829,942	744,937
Due from other funds	-	-	-	-		-	-		-	-		-	35,755
Other	-	-	-	-		28,955	1,951,903		-	-		1,980,858	1,749,045
PREPAID EXPENSES	616,416	-	-	586,933		-	-		-	-		1,203,349	604,729
PROPERTY, PLANT AND EQUIPMENT	-	-	-	-		-	-		-	107,521,615		107,521,615	76,093,028
OTHER ASSETS	-	-	-	-		18,729,437	-		-	-		18,729,437	16,368,054
AMOUNTS TO BE PROVIDED FOR THE RETIREMENT OF GENERAL LONG-TERM OBLIGATIONS	-	-	-	-		-	-		62,062,038	-		62,062,038	112,588,732
TOTAL ASSETS AND OTHER DEBITS	\$ 32,691,136	\$ 5,056,593	\$ 18,381,935	\$ 4,222,228		\$ 32,318,677	\$ 123,077,477		\$ 62,062,038	\$ 107,521,615		\$ 385,331,699	\$ 381,194,851
LIABILITIES, FUND EQUITY (DEFICIENCY) AND OTHER CREDITS													
LIABILITIES:													
WARRANTS AND ACCOUNTS PAYABLE	\$ 2,982,783	\$ 24,167	\$ 12,101	\$ -		\$ -	\$ 1,473,288		\$ -	\$ -		\$ 4,492,339	\$ 3,421,546
DUE TO OTHER FUNDS	-	-	-	-		-	-		-	-		-	35,755
NOTES PAYABLE	-	-	36,500,000	-		-	-		-	-		36,500,000	16,880,000
ACCRUED LIABILITIES:													
Tax abatement refunds	2,422,291	-	-	-		-	-		6,056,998	-		2,422,291	1,587,622
Sick and vacation	-	-	-	-		-	-		-	-		6,056,998	5,524,432
Pension costs	-	-	-	2,432,000		-	-		-	-		2,432,000	56,600,000
Claims and judgments	-	-	-	212,148		-	-		-	-		1,269,947	2,595,360
Other	286,177	-	-	-		264,155	-		-	-		762,480	16,368,054
DEFERRED COMPENSATION	-	-	-	-		-	-		-	-		-	48,864,300
GENERAL OBLIGATION BONDS PAYABLE	6,294,071	-	-	-		-	-		56,005,040	-		56,005,040	8,372,038
DEFERRED REVENUE	-	2,077,967	-	-		-	-		-	-		-	8,487,351
Total liabilities	11,985,322	2,102,134	36,512,101	2,644,148		264,155	1,473,288		62,062,038	-		117,043,186	161,634,367

(Continued)

TOWN OF BROOKLINE, MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1998 (EXCEPT FOR THE PENSION TRUST FUND WHICH IS AS OF DECEMBER 31, 1997)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types		Account Groups			Total (Memorandum Only)	
	General	Special Revenue	Capital Projects		Internal Service Fund	Trust and Agency	Pension Trust	General Long-Term Obligations	General Fixed Assets	1998	1997 (As Restated)
LIABILITIES, FUND EQUITY (DEFICIENCY) AND OTHER CREDITS (CONTINUED)											
FUND EQUITY (DEFICIENCY) AND OTHER CREDITS:											
Investments in general fixed assets	-	-	-	-	-	-	-	-	107,521,615	107,521,615	76,093,028
Contributed capital	-	-	-	-	700,000	-	-	-	-	700,000	-
Retained earnings	-	-	-	-	878,080	-	-	-	-	878,080	3,245,991
Fund balances:											
Reserved for:											
Encumbrances and continuing appropriations	6,057,442	1,610,603	14,770,024	-	-	6,361	-	-	-	22,444,430	41,473,725
Subsequent year expenditures	3,562,222	-	-	-	-	-	-	-	-	3,562,222	2,929,019
Nonexpendable trust principal	-	-	-	-	-	10,206,448	-	-	-	10,206,448	9,973,338
Employees' benefits	-	-	-	-	-	-	121,604,189	-	-	121,604,189	105,984,600
Deferred compensation plan benefits	-	-	-	-	-	18,729,437	-	-	-	18,729,437	-
Unreserved - undesignated	11,086,150	1,343,856	(32,900,190)	-	-	3,112,276	-	-	-	(17,357,908)	(20,139,217)
Total fund equity (deficiency) and other credits	20,705,814	2,954,459	(18,130,166)	-	1,578,080	32,054,522	121,604,189	-	107,521,615	268,288,513	219,560,484
TOTAL LIABILITIES, FUND EQUITY (DEFICIENCY) AND OTHER CREDITS	\$32,691,136	\$5,056,593	\$18,381,935	\$4,222,228	\$32,318,677	\$123,077,477	\$62,062,038	\$107,521,615	\$385,331,699	\$381,194,851	(Concluded)

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS YEAR ENDED JUNE 30, 1998

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trusts	1998	1997 (As Restated)
REVENUES:						
Real and personal property taxes	\$ 87,166,127	\$ -	\$ -	\$ -	\$ 87,166,127	\$ 83,180,344
Motor vehicle excise	4,260,216	-	-	-	4,260,216	3,686,845
Licenses and permits	744,471	-	-	-	744,471	768,765
Investment income	2,413,127	54,649	-	451,053	2,918,829	2,105,770
Intergovernmental	11,702,439	7,453,916	42,961	-	19,199,316	16,149,198
Payments in lieu of taxes	1,298,547	-	-	-	1,298,547	1,343,717
Water and sewer revenue	15,607,189	-	-	-	15,607,189	14,147,554
Departmental and other revenue	6,932,969	6,446,346	28,512	1,623,777	15,031,604	13,360,704
Fines	2,732,991	-	-	-	2,732,991	2,702,703
Net increase in fair value of investments	-	-	-	2,597,322	2,597,322	353,144
Total revenues	<u>132,858,076</u>	<u>13,954,911</u>	<u>71,473</u>	<u>4,672,152</u>	<u>151,556,612</u>	<u>137,798,744</u>
EXPENDITURES:						
Current:						
Education	40,146,666	6,920,605	-	160,007	47,227,278	44,584,090
General government	4,352,812	539,446	-	-	4,892,258	4,615,237
Public safety	23,818,964	369,052	-	9,561	24,197,577	22,807,582
Public works	24,876,710	2,220	-	32,041	24,910,971	22,822,798
Human services	1,426,948	112,397	-	13,953	1,553,298	1,467,315
Leisure services	3,431,926	940,848	-	253,664	4,626,438	3,814,210
Pension and annuity	7,551,403	-	-	-	7,551,403	7,658,173
State and district assessments	5,795,247	-	-	-	5,795,247	5,534,502
Nondepartmental	10,300,460	2,282,972	-	598,027	13,181,459	12,146,852
Capital outlay	-	-	33,982,558	-	33,982,558	10,579,031
Debt service	8,725,394	-	-	-	8,725,394	7,455,353
Total expenditures	<u>130,426,530</u>	<u>11,167,540</u>	<u>33,982,558</u>	<u>1,067,253</u>	<u>176,643,881</u>	<u>143,485,143</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,431,546</u>	<u>2,787,371</u>	<u>(33,911,085)</u>	<u>3,604,899</u>	<u>(25,087,269)</u>	<u>(5,686,399)</u>
OTHER FINANCING SOURCES (USES):						
Proceeds of bonds	-	-	12,757,000	-	12,757,000	9,710,000
Operating transfers in (out), net	<u>1,520,198</u>	<u>(2,220,198)</u>	<u>-</u>	<u>700,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses), net	<u>1,520,198</u>	<u>(2,220,198)</u>	<u>12,757,000</u>	<u>700,000</u>	<u>12,757,000</u>	<u>9,710,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>3,951,744</u>	<u>567,173</u>	<u>(21,154,085)</u>	<u>4,304,899</u>	<u>(12,330,269)</u>	<u>4,023,601</u>
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR DEFERRED COMPENSATION PLANS	-	-	-	15,448,011	15,448,011	-
FUND BALANCE, BEGINNING OF YEAR (AS RESTATED)	<u>16,754,070</u>	<u>2,387,286</u>	<u>3,023,919</u>	<u>2,095,164</u>	<u>24,260,439</u>	<u>20,236,838</u>
FUND BALANCE (DEFICIENCY), END OF YEAR	<u>\$ 20,705,814</u>	<u>\$ 2,954,459</u>	<u>\$ (18,130,166)</u>	<u>\$21,848,074</u>	<u>\$ 27,378,181</u>	<u>\$ 24,260,439</u>

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) – BUDGET AND ACTUAL (BUDGETARY BASIS), GENERAL FUND YEAR ENDED JUNE 30, 1998

	Final Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1997 Actual
REVENUES:				
Real and personal property taxes	\$ 85,868,229	\$ 85,887,009	\$ 18,780	\$ 82,241,558
Motor vehicle excise	4,093,000	4,260,216	167,216	3,686,845
Licenses and permits	715,000	744,471	29,471	768,765
Investment income	985,000	2,413,127	1,428,127	1,807,692
Intergovernmental	11,471,133	11,702,439	231,306	10,731,210
Payments in lieu of taxes	1,000,000	1,298,547	298,547	1,343,717
Water and sewer revenue	15,993,046	15,607,189	(385,857)	14,147,554
Departmental and other revenue	4,897,000	6,932,969	2,035,969	6,341,593
Fines	2,660,000	2,732,991	72,991	2,702,703
Total revenues	<u>127,682,408</u>	<u>131,578,958</u>	<u>3,896,550</u>	<u>123,771,637</u>
EXPENDITURES:				
Education	40,351,839	40,351,813	26	38,776,457
General government	4,492,141	4,386,029	106,112	4,170,486
Public safety	22,723,018	22,699,346	23,672	21,880,411
Public works	22,138,989	22,073,241	65,748	20,472,331
Human services	1,449,319	1,425,462	23,857	1,389,621
Leisure services	3,403,868	3,398,052	5,816	3,393,672
Pension and annuity	7,821,300	7,668,938	152,362	7,745,006
State and district assessments	5,738,724	5,795,247	(56,523)	5,534,502
Special articles	4,139,784	4,139,784	-	4,328,439
Nondepartmental	10,947,470	10,467,214	480,256	8,376,704
Debt service	8,925,173	8,725,394	199,779	7,455,354
Total expenditures	<u>132,131,625</u>	<u>131,130,520</u>	<u>1,001,105</u>	<u>123,522,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,449,217)</u>	<u>448,438</u>	<u>4,897,655</u>	<u>248,654</u>
OTHER FINANCING SOURCES (USES):				
Available funds	2,929,019	2,929,019	-	2,220,000
Operating transfers in (out):				
Special revenue funds	2,220,198	2,220,198	-	2,292,098
Trust funds	(700,000)	(700,000)	-	(785,000)
Total other financing sources	<u>4,449,217</u>	<u>4,449,217</u>	<u>-</u>	<u>3,727,098</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 4,897,655</u>	<u>\$ 4,897,655</u>	<u>\$ 3,975,752</u>

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY – INTERNAL SERVICE FUND AND NONEXPENDABLE TRUST FUNDS YEAR ENDED JUNE 30, 1998

	Proprietary Fund Type	Fiduciary Fund Types	Total (Memorandum Only)	
	Internal Service Fund	Nonexpendable Trust Funds	1998	1997 (As Restated)
OPERATING REVENUES:				
Investment income	\$ 64,247	\$ 36,946	\$ 101,193	\$ 99,604
Premiums	7,735,701		7,735,701	5,162,943
Net increase in fair value of investments	-	136,632	136,632	7,016,607
Contributions	-	56,444	56,444	67,202
Total operating revenues	<u>7,799,948</u>	<u>230,022</u>	<u>8,029,970</u>	<u>12,346,356</u>
OPERATING EXPENSES:				
Claims	9,267,107		9,267,107	4,721,259
Salaries, wages and fringe benefits	63,854		63,854	63,940
Insurance	102,068		102,068	133,074
Other	34,830	-	34,830	6,359
Total operating expenses	<u>9,467,859</u>	<u>-</u>	<u>9,467,859</u>	<u>4,924,632</u>
NET (LOSS) INCOME	(1,667,911)	230,022	(1,437,889)	7,421,724
FUND EQUITY, BEGINNING OF YEAR (AS RESTATED)	<u>3,245,991</u>	<u>9,976,426</u>	<u>13,222,417</u>	<u>5,800,693</u>
FUND EQUITY, END OF YEAR	<u>\$ 1,578,080</u>	<u>\$ 10,206,448</u>	<u>\$ 11,784,528</u>	<u>\$ 13,222,417</u>

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS AND NONEXPENDABLE TRUST FUNDS YEAR ENDED JUNE 30, 1998

	Proprietary Fund Type	Fiduciary Fund Type	Total	
	Internal Service Funds	Nonexpendable Trust Funds	(Memorandum Only) 1997	
			1998	(As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$(1,667,911)	\$ 230,022	\$(1,437,889)	\$ 604,767
Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities:				
Change in fair value of investments	-	(136,632)	(136,632)	(172,205)
Changes in assets and liabilities:				
Prepaid expenses	(586,933)	-	(586,933)	666,000
Due from other funds	35,755	-	35,755	673,902
Claims and judgments	1,436,638	-	1,436,638	(80,735)
Accounts payable and other	(119,336)	-	(119,336)	(60,213)
Net cash (used for) provided by operating activities	<u>(901,787)</u>	<u>93,390</u>	<u>(808,397)</u>	<u>1,631,516</u>
CASH FLOWS FROM INVESTING ACTIVITIES – Purchase of investments, net	<u>-</u>	<u>(407,240)</u>	<u>(407,240)</u>	<u>2,809</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(901,787)	(313,850)	(1,215,637)	1,634,325
CASH AND CASH EQUIVALENTS:				
Beginning of year, as restated	<u>4,537,082</u>	<u>1,196,542</u>	<u>5,733,624</u>	<u>4,099,299</u>
End of year	<u>\$ 3,635,295</u>	<u>\$ 882,692</u>	<u>\$ 4,517,987</u>	<u>\$ 5,733,624</u>

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

STATEMENT OF CHANGES IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS) YEAR ENDED DECEMBER 31, 1997

ADDITIONS:

Contributions:

Town contributions	\$ 7,527,114
Intergovernmental	1,451,393
Participant contributions	<u>2,858,346</u>

Total contributions	<u>11,836,853</u>
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Net investment income:

Net appreciation in fair value of investments	11,381,368
Interest and dividend income	<u>4,761,154</u>

Total investment income	16,142,522
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Less investment expense	<u>(493,560)</u>
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Net investment income	<u>15,648,962</u>
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Total additions	<u>27,485,815</u>
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DEDUCTIONS:

Benefits	11,471,614
Pension reimbursements	222,938
Other	<u>171,674</u>

Total deductions	<u>11,866,226</u>
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NET INCREASE	15,619,589
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NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR (FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS) (AS RESTATED)	<u>105,984,600</u>
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NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR (FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS)	<u><u>\$ 121,604,189</u></u>
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See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS YEAR ENDED JUNE 30, 1998

	Balance, July 1, 1997 (As Restated)	Additions	Deductions	Balance, June 30, 1998
ASSETS:				
Cash	\$ (395,989)	\$ 1,238,180	\$ 1,219,199	\$ (377,008)
User charges – police detail	<u>185,136</u>	<u>1,216,499</u>	<u>1,369,374</u>	<u>32,261</u>
TOTAL ASSETS	<u>\$ (210,853)</u>	<u>\$ 2,454,679</u>	<u>\$ 2,588,573</u>	<u>\$ (344,747)</u>
LIABILITIES – Other liabilities	<u>\$ (210,853)</u>	<u>\$ 1,231,735</u>	<u>\$ 1,365,629</u>	<u>\$ (344,747)</u>

See notes to general purpose financial statements.

TOWN OF BROOKLINE, MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1998 (EXCEPT FOR THE PENSION TRUST FUND WHICH IS FOR THE YEAR ENDED DECEMBER 31, 1997)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of the Town of Brookline, Massachusetts (the "Town") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

- a. **Reporting Entity** – The Town was founded in 1630 as a part of Boston and was incorporated in 1705 under the statutes of the Commonwealth of Massachusetts (the "Commonwealth"). The Town operates under a representative town meeting form of government and provides the following services: general and administrative services, individual and community protection, education, health, culture, leisure time, environmental preservation, community development, planning and zoning, water and sewer, and highway and street construction and maintenance. The Town is governed by an elected Board of Selectmen.

GAAP requires that the accompanying general purpose financial statements present the Town (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. Pursuant to this criteria, the Town of Brookline's Contributory Retirement System (the "System") has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent contributory retirement system available to employees of the Town. The powers of the System are vested in the Town of Brookline Retirement Board (the "Board"). The System has been blended into the Town's Fiduciary Funds for reporting purposes.

The Town has entered into two joint ventures with other governmental entities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the Town's joint ventures, their purpose, and the address where the joint venture financial statements are available:

Joint Venture	Purpose	Address
Massachusetts Water Resources Authority	To provide water and sewer service	100 First Avenue Boston, MA 02189
Massachusetts Bay Transportation Authority	To provide public transportation	10 Park Plaza Boston, MA 02116

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. **Basis of Presentation** – The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into three broad fund categories comprised of six fund types and two account groups as follows:

Governmental Funds

General Fund is the primary operating fund of the Town and is used to account for current financial transactions not properly accounted for in another fund.

Special Revenue Funds are used to provide separate accountability for revenues that are restricted to expenditures for specified purposes (other than major capital projects or expendable trusts).

Capital Project Funds are used to account for resources used for the acquisition or construction of major capital assets except those financed entirely by the general or proprietary funds.

Proprietary Funds

Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments of the Town on a cost reimbursement basis. The Town's internal service fund is used to account for the financing of medical claims of all covered Town employees and their covered dependents. Amounts are charged to other funds and covered employees for services provided.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trusts, nonexpendable trusts and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds and the pension trust fund are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Pension Trust Fund is used to account for the assets, liabilities, and changes in net assets available for benefits of the Town-administered retirement system.

Account Groups

The General Long-Term Obligation Account Group is used to account for general obligation bonds and other forms of long-term obligations of the Town that are backed by the full faith and credit of the Town and which are expected to be financed from governmental funds.

The General Fixed Assets Account Group is used to account for all general fixed assets of the Town.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- c. ***Measurement Focus*** – All governmental funds and expendable trust funds are accounted for on a spending or “financial flow” measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Accordingly, such statements present a summary of sources and uses of “available spendable resources” during a period.

Proprietary funds, nonexpendable trust funds, and pension trust funds are accounted for on a cost-of-services or “capital maintenance” measurement focus. With this measurement focus, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the combined balance sheet. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Propriety fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Agency funds do not have a measurement focus as they report assets and liabilities in equal amounts.

- d. ***Basis of Accounting*** – Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) principal and interest on general long-term debt which are recognized when due.

Agency Fund assets and liabilities are accounted for on the modified accrual basis of accounting.

Proprietary Funds and the Pension Trust Fund are accounted for using the accrual basis of accounting. These revenues are recognized when they are earned, and these expenditures are recognized when they are incurred.

In accordance with GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,” the Town applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (“FASB”) pronouncements issued since November 30, 1989 in accounting and reporting for its internal service fund operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- e. ***Budgets and Appropriations*** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental Funds, except as noted below. Appropriations for the General Fund of the Town are made at the Annual Town Meeting which is held each May. Appropriations may also be voted at Special Town Meetings. The Town has an advisory committee which submits reports on proposed appropriations at Town Meetings. The Town does not vote on annual appropriations for the special revenue and capital projects funds.

The appropriated budget is prepared by fund, function and department. Town department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Meeting.

All annual appropriations lapse at fiscal year end. Appropriations for certain projects and specific items not fully expended at the fiscal year end are carried forward as continued appropriations to the new fiscal year, and are reported as a component of fund balance. Expenditures from continued appropriations are recorded as current year expenditures of the General Fund in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances.

The school budget included within the General Fund is limited to the amount appropriated by the Town Meeting, but the School Committee retains full power to allocate the funds appropriated.

Town Meeting does not vote general operating appropriations for the golf course, but rather authorizes this self-supporting fund to incur expenses from receipts. A cap on the level of expenditures is generally voted on at the annual Town Meeting.

It is unlawful to authorize an expenditure in excess of the amounts which have been appropriated by Town Meetings, with the exception of expenditures for snow and ice removal per Massachusetts General Laws Chapter 44, Section 31D.

The Town prepares its annual operating budget on a basis (budgetary basis) which differs from generally accepted accounting principles (GAAP basis). In order to provide a comparison of actual results with the budget, the actual and budget amounts are presented in accordance with the Town's method (budgetary basis) in the Statement of Revenues, Expenditures and Other Financing Sources (Uses) – Budget and Actual (Budgetary Basis), General Fund.

The major differences between GAAP and budgetary basis are as follows:

- ***Accumbrances*** – Reported as a reservation of fund balance (GAAP basis) as opposed to being recorded as an expenditure (budgetary basis).
- ***Revenue Recognition*** – Budget revenues are recorded when cash is received except for real estate and personal property taxes, and certain other revenues, which are recorded as revenues when levied (budgetary basis), as opposed to when susceptible to accrual (GAAP basis).
- ***Appropriation of Unreserved Fund Balance*** – Classified as another financing source for the budgetary basis, it is not reflected in the GAAP basis amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Cash and Cash Equivalents – Cash and cash equivalents consist substantially of interest-bearing deposits with financial institutions and investments with an original maturity of three months or less.

g. Investments – Investments in marketable securities held in the fiduciary fund types are recorded at market value.

Investments in the deferred compensation plan reflected as expendable trust funds represent mutual funds at their quoted market value.

h. Inventories – Inventories of materials and supplies are recorded as expenditures when purchased.

i. General Fixed Assets – General fixed assets are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. Contributed fixed assets are recorded at their estimated fair market value at the time received.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized. Such assets normally are immovable and of value only to the Town. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets. Depreciation is not provided on general fixed assets.

j. Other Assets – Other assets in the trust and agency fund represent investments of the deferred compensation plans.

k. Accrued Sick and Vacation – Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then current rates of pay. The amount of sick and vacation costs, which are not currently due and payable, is recorded in the general long-term obligations account group.

l. Long-Term Debt – Long-term financing other than that related to the Proprietary Funds is recorded in the General Long-Term Obligations Account Group. Principal and interest paid on long-term debt are recorded as expenses of the General Fund.

m. Transfers – Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as operating transfers and are reported as other financing sources (uses). Residual equity transfers are nonrecurring transfers of equity between funds.

n. Fund Equity – Contributed capital is recorded in proprietary funds that have received contributions from other funds. Reserves represent those portions of fund equity not appropriated for expenditure or legally segregated for a specific future use.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- o. Total Columns* – Total columns on the combined financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Additionally, such data is not comparable to a consolidation. Interfund eliminations have not been considered in the aggregation of this data.
- p. On-Behalf Payments* – During fiscal year 1996, the Town was required to adopt GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.” This statement requires the Town to recognize as income certain payments made on behalf of the Town by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers’ Retirement Board (the “State Plan”) on behalf of the Town’s teaching employees; the Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 1998, the Commonwealth did not provide the Town with the amounts paid to the State Plan on behalf of employees of the Town or with information for the Town to use in estimating the amounts paid by the Commonwealth on behalf of the Town’s teaching employees. Accordingly, the accompanying general purpose financial statements do not include the required adjustments, which would have increased both intergovernmental revenues and pension expenditures by the same amount. The effect of such an adjustment would not have changed the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 1998 or fund balances at June 30, 1998.

- q. Use of Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- r. New Accounting Pronouncements* – During fiscal year 1998, the Town amended its Plan-Trust Declaration relating to the Town-sponsored deferred compensation plans, established in accordance with Section 457 of the Internal Revenue Code (the “Code”) to conform with changes made to the Code. In connection with amending the Plan-Trust Declaration, the Town adopted the provisions of GASB No. 32, “Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,” which requires that deferred compensation plans sponsored by the Town for which they do not have fiduciary responsibility not be reported in the Town’s general purpose financial statements and the deferred compensation plans sponsored by the Town and held in a trust for the exclusive benefit of participants and their beneficiaries be reported as an expendable Trust Fund of the Town. Prior to the adoption of this standard, the deferred compensation plans were accounted for as an Agency Fund. In implementing this standard for the ICMA and Aetna deferred compensation plans, the Town has eliminated the plan assets and related liabilities from its Agency Fund, which amounted to \$15,448,011 at June 30, 1997, and increased its beginning fund balance in the Deferred Compensation Trust Fund by \$15,448,011. In implementing this standard for the Copeland deferred compensation plan, the Town has eliminated the plan assets and related liabilities from its Agency Fund by \$920,043 as of June 30, 1997. As the Town does not have fiduciary responsibility for the Copeland deferred compensation plan, the plan assets and related liabilities are not reported in the Town’s general purpose financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- r. *New Accounting Pronouncements (Continued)* – Effective January 1, 1997 and applied retroactively to January 1, 1996, the Town adopted certain provisions of GASB Statement No. 25, “Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans,” and GASB Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers.” Aside from changing the reporting format of the basic financial statements and the required supplementary information, GASB Nos. 25 and 27 require, in most cases, that investments in equity securities with readily determinable fair values and all investments in debt securities which are held by municipal retirement systems be reported at fair value based on quoted market prices.

Prior to the adoption of these standards, equity securities held by the Pension Trust Fund were recorded at their fair market values based on quoted market prices. Debt securities, however, were valued at amortized cost, which is the original cost of the investment adjusted for bond premium amortization or discount accretion over the expected life of the investment. The application of GASB Nos. 25 and 27 retroactive to January 1, 1996 resulted in an increase to beginning net assets held in trust for pension benefits (fund balance reserved for employees’ pension benefits) of approximately \$2,263,000. The impact of applying these standards in 1997 and 1996 was to increase investments and the net increase in net assets held in trust for pension benefits by approximately \$1,113,000 and \$168,000, respectively.

Effective July 1, 1997 and applied retroactively to July 1, 1996, the Town also adopted the provisions of GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” GASB No. 31 similarly requires, in most cases, that investments in equity securities with readily determinable fair values and all investments in debt securities which are held by governmental entities other than external investment pools and defined benefit pension plans be reported at fair value based on quoted market prices.

Prior to the adoption of this standard, investments in marketable securities held in Fiduciary Fund Types were recorded at cost. All other investments, other than those held by the Pension Trust Fund, were recorded at their fair market value. The cumulative effect of adopting this standard at June 30, 1997 was to increase investments in the Trust and Agency Funds by \$7,197,546. The effect on the excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the years ended June 30, 1998 and 1997 in the Trust and Agency Funds was to increase such amounts by \$2,733,954 and \$7,197,546, respectively.

In 1998, the Town changed its accounting for its workers’ compensation risk financing activities from the General Fund to the Internal Service Fund. GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,” requires that risk financing activities be accounted for in either the general fund or an internal service fund. The change was made through a restatement of beginning fund balance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The effect on previously reported amounts of the adjustments necessary to implement the above-noted accounting pronouncements and accounting change are summarized below:

	As Previously Reported	Increase (Decrease)	As Restated
General Fund:			
Fund balance, July 1, 1996	\$ 13,247,823	\$ (440,027)	\$ 12,807,796
Net income for the year ended June 30, 1997	<u>3,917,274</u>	<u>29,000</u>	<u>3,946,274</u>
Fund balance, June 30, 1997	<u>\$ 17,165,097</u>	<u>\$ (411,027)</u>	<u>\$ 16,754,070</u>
Internal Service Funds:			
Fund balance, July 1, 1996	\$ 2,537,869	\$ 440,027	\$ 2,977,896
Net income for the year ended June 30, 1997	<u>297,095</u>	<u>(29,000)</u>	<u>268,095</u>
Fund balance, June 30, 1997	<u>\$ 2,834,964</u>	<u>\$ 411,027</u>	<u>\$ 3,245,991</u>
Trust and Agency Funds:			
Fund balance, July 1, 1996	\$ 4,367,823	\$ -	\$ 4,367,823
Net income for the year ended June 30, 1997	<u>506,221</u>	<u>7,197,546</u>	<u>7,703,767</u>
Fund balance, June 30, 1997	<u>\$ 4,874,044</u>	<u>\$ 7,197,546</u>	<u>\$ 12,071,590</u>
Pension Trust Fund:			
Net assets held in Trust for pension benefits, January 1, 1996	\$ 93,285,890	\$ 2,262,597	\$ 95,548,487
Net decrease for the year ended December 31, 1996	<u>12,530,735</u>	<u>(2,094,622)</u>	<u>10,436,113</u>
Net assets held in Trust for pension benefits, December 31, 1996	<u>\$ 105,816,625</u>	<u>\$ 167,975</u>	<u>\$ 105,984,600</u>

Reclassifications – Certain reclassifications have been made to the 1997 amounts to confirm to the current year presentation.

2. PROPERTY TAXES

Levy – Property taxes are levied each July for the following fiscal year ending June 30. The taxes for each fiscal year are due in four installments and are payable upon receipt of notice. Property taxes are recorded as receivables and deferred revenues at the time quarterly installments are billed. Interest accrues on delinquent taxes at the rate of 14% per annum and is recognized as revenue when received.

The assessed value for the tax roll, upon which the original 1998 levy was based, was \$5,295,464,700.

Lien – Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and bankruptcy and insolvency laws. In addition, real property is subject to a lien for certain unpaid municipal charges or fees. If the property has been transferred, an unenforced lien expires on the third October 1 after the fiscal year levied. If the property has not been transferred by the third October 1, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

2. PROPERTY TAXES (CONTINUED)

Personal Liability – The persons against whom real or personal property taxes are assessed are personally liable for the taxes (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property by the Town.

Limitations – The Town is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2 ½% of the Town's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2 ½%.

3. BUDGETARY– GAAP REPORTING RECONCILIATIONS

The Town's general fund budget is prepared on a basis other than GAAP. The "actual" results column of the Statement of Revenues, Expenditures and Other Financing Sources (Uses) – Budget and Actual (Budgetary Basis) is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budgetary and GAAP basis are that:

- (a) Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, and certain other revenues, which are recorded as revenues when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1998:

Excess of revenues and other financing sources over expenditures and other financing uses – budgetary basis	\$4,897,655
Adjustment for other available funds	(2,929,019)
Adjustments to reflect timing differences:	
Amounts expended from prior year encumbrances	(3,555,095)
Current year encumbrances	4,259,085
Adjustment of revenues to a modified accrual basis – real and personal property taxes	<u>1,279,118</u>
Excess of revenues and other financing sources over expenditures and other financing uses – GAAP basis	<u>\$3,951,744</u>

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include cash on hand and certificates of deposit with original maturities of three months or less.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, money market deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels defined by statute.

Investments may only be made in securities issued or unconditionally guaranteed by the United States Government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The Town's Pension Trust Fund has additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

Deposits – The Town maintains deposits in several financial institutions which are subject to federal depository insurance. Deposits at June 30, 1998 (December 31, 1997 as to the Pension Trust Fund) are summarized as follows:

	Bank Balance	Carrying Amount	Insured Amount
Governmental and proprietary fund types:			
Financial institutions	\$ 7,108,187	\$ 5,712,217	\$ 1,667,623
Massachusetts Municipal Depository Trust	<u>46,391,956</u>	<u>47,632,112</u>	<u>-</u>
Total	<u>\$ 53,500,143</u>	<u>\$ 53,344,329</u>	<u>\$ 1,667,623</u>

Investments – The following tables summarize the fair value and risk characteristics (categories) of the Town's and the Pension Trust Fund's investments as of year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the name of the Town or the Pension Trust Fund.

Investments of the pension trust fund as of December 31, 1997 are summarized as follows:

	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$ -	\$ 20,036,762	\$ -	\$ 20,036,762
U.S. Government and government agency obligations	-	8,140,426	-	8,140,426
Common stocks	-	48,038,342	-	48,038,342
Corporate debt securities	-	<u>38,424,908</u>	-	<u>38,424,908</u>
	<u>\$ -</u>	<u>\$ 114,640,438</u>	<u>\$ -</u>	114,640,438
Mutual funds				<u>5,752,587</u>
Total				<u>\$ 120,393,025</u>

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued) – At December 31, 1997, the System held investments in two mutual funds which include in their portfolios various derivative financial instruments, including structured notes, options, futures, currency transactions, swaps, caps, floors and collars and Eurodollar contracts. The mutual funds are part of a family of funds organized by the System's investment advisor. The System's investment in these funds is carried at fair value.

Investments of the trust and agency funds as of June 30, 1998 are summarized as follows:

	Category			Not Categorized	Fair Value
	1	2	3		
U.S. Treasury and Government agency obligations	\$ 709,676	\$ -	\$ -	\$ -	\$ 709,676
Nongovernment securities:					
Corporate bonds	-	763,510	-	-	763,510
Stocks	7,416,517	116,385	-	-	7,532,902
Unit investment trusts	-	77,210	-	-	77,210
Total	<u>\$8,126,193</u>	<u>\$ 957,105</u>	<u>\$ -</u>	<u>\$ -</u>	9,083,298
Mutual funds					<u>885,921</u>
					<u>\$ 9,969,219</u>

5. PROPERTY, PLANT AND EQUIPMENT

A summary of changes in recorded general fixed assets for the year ended June 30, 1998 follows:

	Balance, July 1, 1997	Additions	Disposals	Balance, June 30, 1998
Buildings	\$57,287,550	\$ -	\$ -	\$ 57,287,550
Machinery and equipment	<u>18,805,478</u>	<u>31,428,587</u>	<u>-</u>	<u>50,234,065</u>
	<u>\$76,093,028</u>	<u>\$ 31,428,587</u>	<u>\$ -</u>	<u>\$107,521,615</u>

6. NOTES PAYABLE

Capital Projects Fund – The bond anticipation notes payable in the Capital Projects Fund were issued in anticipation of issuing a bond, authorized for costs relating to the plans and reconstruction and renovation of the high school. The temporary note was issued on January 13, 1998 in the amount of \$7,500,000, bearing interest at 4% and is due on December 16, 1998. Another temporary note was issued on June 4, 1998 in the amount of \$29,000,000, bearing interest at 4%, and is due on June 4, 1999.

7. LONG-TERM DEBT

General Obligation Bonds – The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year.

The following is a summary of changes in general long-term obligations for the year ended June 30, 1998:

General Obligation Bonds:

Inside Debt Limit	Issue Amount	Interest Rate	Final Maturity Date	June 30, 1997	Additions	Retirements	June 30, 1998	Interest Paid
1987 Lincoln School Improvement	\$ 370,000	6.63%	12/01/97	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ 975
1989 Clark Playground	300,000	6.38	11/15/99	90,000	-	30,000	60,000	4,800
1989 Town Hall Roof	40,000	6.36	11/15/97	5,000	-	5,000	-	160
1989 High School Roof	120,000	6.37	11/15/98	20,000	-	10,000	10,000	960
1989 High School Science Labs	4,070,000	6.37	11/15/98	570,000	-	490,000	80,000	20,800
1989 Pierce School	3,235,000	6.37	11/15/98	715,000	-	360,000	355,000	34,240
1989 High School Roof	300,000	6.38	11/15/99	90,000	-	30,000	60,000	4,800
1991 Larz Anderson Park	240,000	5.89	08/15/04	140,000	-	20,000	120,000	7,515
1991 Swimming Pool Building	260,000	5.89	08/15/99	90,000	-	30,000	60,000	4,140
1991 Asbestos Removal	150,000	5.91	08/15/99	50,000	-	20,000	30,000	2,205
1991 School Boilers	350,000	5.91	08/15/06	225,000	-	25,000	200,000	12,525
1991 Warren Field	380,000	5.89	08/15/06	250,000	-	25,000	225,000	14,075
1991 Driscoll Playground	245,000	5.89	08/15/06	150,000	-	15,000	135,000	8,445
1991 Driscoll School Gymnasium	400,000	5.91	08/15/06	250,000	-	25,000	225,000	14,075
1991 Library Roof	415,000	5.89	08/15/06	265,000	-	30,000	235,000	14,765
1992 High School Windows	250,000	5.31	09/01/12	190,000	-	15,000	175,000	9,439
1992 Baker School Roof	1,500,000	4.92	09/01/02	900,000	-	150,000	750,000	39,488
1992 Sidewalk Construction	1,500,000	4.29	09/01/02	900,000	-	150,000	750,000	39,488
1992 School Boilers	800,000	5.30	09/01/10	620,000	-	45,000	575,000	30,951
1992 Runkle School Repairs	295,000	5.35	09/01/12	235,000	-	15,000	220,000	11,904
1992 Town Hall Elevators	100,000	5.16	09/01/07	72,000	-	7,000	65,000	3,457
1992 High School Safety System	510,000	5.27	09/01/09	390,000	-	30,000	360,000	19,328
1992 Golf Course Improvements	650,000	5.15	09/01/07	470,000	-	45,000	425,000	22,576
1992 Fire Station Repairs	925,000	5.13	09/01/06	650,000	-	65,000	585,000	31,021
1992 Branch Library Repairs	200,000	5.36	09/01/12	160,000	-	10,000	150,000	8,123
1992 Town Hall Repairs	95,000	5.33	09/01/11	75,000	-	5,000	70,000	3,781
1992 Grove Street Building	60,000	5.02	09/01/04	40,000	-	5,000	35,000	1,841

(Continued)

7. LONG-TERM DEBT (CONTINUED)

Inside Debt Limit (Continued)	Issue Amount	Interest Rate	Final Maturity Date	June 30, 1997	Additions	Retirements	June 30, 1998	Interest Paid
1994 Library Building	140,000	3.92	01/15/04	98,000	-	14,000	84,000	3,766
1994 Various Buildings	380,000	3.94	01/15/04	266,000	-	38,000	228,000	10,222
1994 Fire Station Repairs	150,000	3.92	01/15/04	105,000	-	15,000	90,000	4,035
1994 Various Outdoor Facilities	350,000	3.94	01/15/04	245,000	-	35,000	210,000	9,415
1994 High School Safety System	1,000,000	3.94	01/15/04	700,000	-	100,000	600,000	26,900
1994 Computer Improvements	700,000	3.80	01/15/99	280,000	-	140,000	140,000	9,800
1994 Traffic Signals	160,000	3.93	01/15/04	112,000	-	16,000	96,000	4,304
1994 Heath Roof	130,000	3.92	01/15/04	91,000	-	13,000	78,000	3,497
1994 Heath/Driscoll Plans & Specs.	290,000	3.79	01/15/99	113,000	-	59,000	54,000	3,955
1995 Various School Buildings	85,000	4.56	04/01/00	51,000	-	17,000	34,000	2,873
1995 Various School Buildings	750,000	5.90	04/01/10	650,000	-	50,000	600,000	33,950
1995 Heath School	3,200,000	5.35	04/01/15	2,880,000	-	160,000	2,720,000	153,840
1995 Fire Station Repairs	880,000	4.80	04/01/05	704,000	-	88,000	616,000	36,344
1995 Various Public Buildings	430,000	5.90	04/01/10	364,000	-	33,000	331,000	19,053
1995 Fire Engine	460,000	4.56	04/01/00	276,000	-	92,000	184,000	15,548
1996 Various Public Buildings	550,000	4.11	02/15/06	495,000	-	55,000	440,000	20,158
1996 Heath School Playground	180,000	3.74	02/15/01	140,000	-	35,000	105,000	5,408
1996 Soule Playground	330,000	4.09	02/15/06	295,000	-	35,000	260,000	11,970
1996 Beacon Street Construction	500,000	3.74	02/15/01	400,000	-	100,000	300,000	15,450
1996 Library Remodeling Plans	150,000	3.74	02/15/01	120,000	-	30,000	90,000	4,635
1996 Computer Equipment	900,000	3.74	02/15/01	720,000	-	180,000	540,000	27,810
1996 Various School Buildings	435,000	4.15	02/15/06	404,000	-	34,000	370,000	16,613
1996 Heath School	300,000	4.11	02/15/06	270,000	-	30,000	240,000	10,995
1996 Surface Drains	400,000	4.11	02/15/06	360,000	-	40,000	320,000	14,660
1996 Library Remodeling	160,000	4.11	02/15/06	144,000	-	16,000	128,000	5,864
1996 Various Public Buildings	580,000	4.15	02/15/06	537,000	-	45,000	492,000	22,080
1997 Parking Meters	250,000	4.86	06/15/02	250,000	-	50,000	200,000	12,988
1997 Various School Buildings	1,670,000	4.70	06/15/07	1,670,000	-	167,000	1,503,000	81,956
1997 Baker School Remodeling	540,000	4.87	06/15/02	540,000	-	108,000	432,000	28,053
1997 Highway Garage	3,800,000	4.97	06/15/17	3,800,000	-	190,000	3,610,000	189,573
1997 Surface Drains	500,000	4.71	06/15/07	500,000	-	50,000	450,000	24,538
1998 Fire Ladder Truck	450,000	3.93	06/15/03	-	450,000	-	450,000	-
1998 Larz Anderson Park	100,000	3.93	06/15/03	-	100,000	-	100,000	-
1998 Sewer Main Reconstruction	127,000	3.92	06/15/03	-	127,000	-	127,000	-
1998 High School Canopy	100,000	3.93	06/15/03	-	100,000	-	100,000	-

(Continued)

7. LONG-TERM DEBT (CONTINUED)

Inside Debt Limit (Continued)	Issue Amount	Interest Rate	Final Maturity Date	June 30, 1997	Additions	Retirements	June 30, 1998	Interest Paid
1998 Baker Remolding	280,000	3.92	06/15/03	-	280,000	-	280,000	-
1998 Eliot Recreation Center	300,000	4.13	06/15/08	-	300,000	-	300,000	-
1998 Schick Playground	250,000	4.13	06/15/08	-	250,000	-	250,000	-
1998 Storm Drains	500,000	4.13	06/15/08	-	500,000	-	500,000	-
1998 Library Renovations	800,000	4.13	06/15/08	-	800,000	-	800,000	-
1998 Driscoll Windows	200,000	4.13	06/15/08	-	200,000	-	200,000	-
1998 Runkle School Windows	300,000	4.13	06/15/08	-	300,000	-	300,000	-
1998 Life Safety Systems	600,000	4.13	06/15/08	-	600,000	-	600,000	-
1998 Municipal Service Center	3,800,000	4.61	06/15/18	-	3,800,000	-	3,800,000	-
1998 Wastewater Systems	2,000,000	4.56	06/15/18	-	2,000,000	-	2,000,000	-
Total Inside Debt	47,917,000			25,222,000	9,807,000	3,722,000	31,307,000	1,196,130
Outside Debt Limit								
1986 Water Mains	1,550,000	5.15	12/15/01	500,000	-	100,000	400,000	23,400
1987 Water Mains Phase II	2,150,000	6.63	12/01/02	800,000	-	150,000	650,000	49,825
1989 Water Mains Phase III	300,000	6.37	11/15/99	110,000	-	25,000	85,000	6,240
1991 Water Mains	3,200,000	5.89	08/15/06	2,380,000	-	210,000	2,170,000	134,655
1992 Lincoln School	13,000,000	5.35	09/01/12	10,360,000	-	660,000	9,700,000	524,885
1992 Water Mains	1,600,000	5.27	09/01/12	1,288,000	-	98,000	1,190,000	63,895
1994 Water Mains	5,200,000	4.54	01/15/14	4,420,000	-	260,000	4,160,000	193,806
1994 Sewer Mains	476,850	-	12/01/99	190,740	-	95,370	95,370	-
1996 Sewer Mains	804,450	-	03/01/01	643,560	-	160,890	482,670	-
1997 Water Mains	2,950,000	4.97	06/15/17	2,950,000	-	135,000	2,815,000	146,934
1998 Water Mains	2,950,000	4.60	06/15/18	-	2,950,000	-	2,950,000	-
Total Outside Debt	34,181,300			23,642,300	2,950,000	1,894,260	24,698,040	1,143,640
Total Bonds	\$ 82,098,300			48,864,300	12,757,000	5,616,260	56,005,040	2,339,770
Other Long-Term Obligations								
Pension costs (Note 8)				56,600,000	-	56,600,000	-	-
Sick and vacation, net				5,524,432	532,566	-	6,056,998	-
TOTAL				\$ 110,988,732	\$ 13,289,566	\$ 62,216,260	\$ 62,062,038	\$ -

(Concluded)

7. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 1998, including interest, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
1999	\$ 6,163,260	\$ 2,653,001	\$ 8,816,261
2000	5,410,890	2,384,213	7,795,103
2001	5,200,890	2,122,990	7,323,880
2002	4,735,000	1,882,198	6,617,198
2003	4,395,000	1,666,685	6,061,685
2004 and thereafter	<u>30,100,000</u>	<u>8,491,848</u>	<u>38,591,848</u>
	<u>\$56,005,040</u>	<u>\$19,200,935</u>	<u>\$75,205,975</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the School Building Assistance Bureau of the Commonwealth of Massachusetts (the "SBAB"), provides resources for future debt service of general obligation school bonds outstanding. These resources are subject to annual appropriation by the state legislature and the Town's compliance with certain reporting requirements. The Town received \$616,287 in SBAB assistance during fiscal year 1998.

The Town is subject to a dual-level general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

Authorized and unissued debt at June 30, 1998 is as follows:

High school renovations – outside debt limit	\$ 43,800,000
Title V - Water Pollution Abatement Trust	200,000
Parking Meters	325,000
Public Safety Headquarters	600,000
Baker School Remodeling	10,500,000
School's Life Safety Systems	800,000
Runkle School Windows	220,000
Pierce School Bathrooms	<u>100,000</u>
	<u>\$ 56,545,000</u>

The Town has approximately \$24,120,000 of debt exempt from the debt limit.

8. PENSION PLANS

System Description – The following description of the Town of Brookline Contributory Retirement System (the “System”), a component unit of the Town, is provided for general information purposes only. Participants should refer to the General Laws of the Commonwealth (principally Chapter 32) and the rules, regulations and procedures adopted by the Public Employee Retirement Administration Commission of the Commonwealth (“PERAC”) and by the Town of Brookline Retirement Board (the “Board”) for more complete information.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to: Director, Town of Brookline Retirement System, Town Hall, 333 Washington Street, Brookline, Massachusetts.

The System is a single employer contributory defined benefit plan covering town employees deemed eligible by the Board, with the exception of School Department employees who serve in a teaching capacity. The pensions of such school employees are administered by the State Teachers’ Retirement Board.

The System was organized on July 1, 1937 in accordance with the provisions of Chapter 32 of the General Laws of the Commonwealth. Participation in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year average annual rate of regular compensation. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation, and group classification. By vote of the Town Meeting, the System does not cap at \$30,000 the level of compensation upon which benefits are calculated as permitted under the Commonwealth’s Pension Reform Act of 1987.

Nonteaching employees of the Town who are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are eligible to participate in the System. Full-time employees are eligible immediately and part-time employees are eligible six months after the date of employment.

Contributions by the Town for participants vest at a rate of 10% per year and become fully vested after ten years of creditable service. Participants’ contributions are fully vested at all times. A superannuation allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts, an annuity and a pension. Participants’ accumulated total contributions and a portion of the interest those contributions generate constitute the annuity. The differential between the total retirement benefit and the annuity benefit is the pension benefit. The average retirement benefit is approximately 80% - 85% pension and 15% - 20% annuity.

8. PENSION PLANS (CONTINUED)

System Description (Continued) – Active participants contribute either 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's participation commenced. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. All deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary (2.5% during calendar 1997). When a participant's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

From time to time, the Massachusetts Legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the Commonwealth. Effective for fiscal year 1998 and subsequent fiscal years, the responsibility for funding and approving cost-of-living adjustments for (nonteacher) systems is the responsibility of the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The Town annually appropriates and contributes an amount determined by its actuary. In 1997, \$7,527,114 was contributed by the Town.

Administrative expenses are paid from investment earnings of the System.

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under age 55, are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

8. PENSION PLANS (CONTINUED)

Annual Pension Cost – The Town’s annual pension cost for the current and two preceding years were as follows:

	1997	1996	1995
Annual pension cost (“APC”)	\$ 7,527,114	\$ 7,293,615	\$ 7,040,589
Contributions made	7,527,114	7,293,615	7,040,589
Change in net pension obligation	-	-	-
Net pension obligation, beginning of year	-	-	-
Net pension obligation, end of year	-	-	-
Percentage of APC contributed	100 %	100 %	100 %

The annual required contribution for the current year was determined as part of the January 1, 1997 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included a) 8.0% investment rate of return and b) projected salary increases ranging from 5.5% per year. Both a) and b) included a blended inflation rate of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. As a result of adopting GASB Statement No. 27, the pension benefit obligation totaling \$56,600,000 in the long-term obligations account group was reduced to zero.

The payroll for teaching employees of the Town’s School Department covered by the Massachusetts State Teachers Retirement System (see Note 9) for the year ended June 30, 1998 was \$29,258,083.

9. OTHER RETIREMENT PLANS

The majority of the teaching employees of the School Department participate in a contributory retirement plan administered by the State Plan. The Town does not contribute to this plan.

Teaching employees of the School Department who meet certain requirements and are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are required to participate in the State Plan.

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after twenty or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 1977 become vested after twenty or more years of creditable service or after 10 or more years of creditable service and having reached the age of 55.

Teaching employees contribute 5% of regular compensation if they became a member of the State Plan prior to January 1, 1975, 7% if they became a member from January 1, 1975 to December 31, 1983, 8% if they became a member on or after January 1, 1984, or 9% if they became a member on or after January 1, 1996.

In addition, if they became a member on or after January 1, 1979, employees are required to contribute an additional 2% of regular compensation in excess of \$30,000.

9. OTHER RETIREMENT PLANS (CONTINUED)

The Commonwealth is obligated to fund the State Plan. State law requires that public employee retirement systems in the Commonwealth be funded on a pay-as-you-go basis, that is, an amount necessary to pay pensions actually falling due must be funded each year. The amount funded by the Commonwealth to the State Plan is not analyzed by community; funding is made in total for participating employees throughout the Commonwealth.

10. DEFERRED COMPENSATION PLANS

The Town has three deferred compensation plans created in accordance with Section 457 of the Code. The Section 457 plans, available to all Town employees, permits them to defer a portion of their current salary to future years. The deferred compensation is not available to the participants until termination, retirement, death or unforeseen emergency.

During fiscal year 1998, the Town amended its Plan-Trust Declarations relating to the Section 457 plans to conform with changes made to the Code. The amendments to the Plan-Trust Declarations are such that the Section 457 plans' assets are held in trust and reported as an expendable trust fund of the Town or the Commonwealth, for the exclusive benefit of participants and their beneficiaries.

The Town and its agent have no liability for losses under the plan, but do have the duty of care that would be required of an ordinary prudent investor.

11. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the Town provides postretirement health care benefits in accordance with Massachusetts General Laws Chapter 32B to all employees who retire from the Town on or after attaining age 55 with at least 20 years of service and who were receiving health care benefits from the Town at retirement. The Town provides health insurance premium assistance at the level which the employee received when employed. This currently averages 75% unless the individual is covered by Medicare, in which case 50% of the Medicare premium and 75% of the Medicare supplement is provided. Benefits are paid by the Town on a pay-as-you-go basis. During the fiscal year ended June 30, 1998, the Town contributed \$2,550,767 towards postretirement health care benefits.

12. COMMITMENTS AND CONTINGENCIES

There are several pending lawsuits in which the Town is involved. The Town attorney estimates that the potential claims against the Town not covered by insurance resulting from such litigation would not materially affect the general purpose financial statements of the Town.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grants. Town officials are not aware of any potential disallowances.

The Town is in the process of closing one landfill and an incinerator site. The cost is estimated at \$1.2 million and has been included in the Town's capital plan.

13. MAJOR TAXPAYERS

The following list of the major taxpayers, all of whom are current in their tax payments, is based on assessed valuations for fiscal year 1998:

Name	Nature of Business	Fiscal Year 1998 Assessed Value	Fiscal Year 1998 Tax Levy	Percent of Fiscal Year 1998 Net Tax Levy
Dexter Apartments	Apartments	\$ 38,227,800	\$ 670,941	0.78 %
Boston Edison Company	Utility	20,717,200	596,221	0.69
Bell Atlantic	Utility	20,657,600	594,732	0.69
Brookline Village Associates	Offices/Stores	20,494,000	590,022	0.69
Edward E. Zuker Trust	Apartments	29,761,900	524,614	0.61
The Country Club	Country Club	17,341,900	499,273	0.58
Daniel Rothenberg Trust	Offices/Stores	14,408,000	414,806	0.48
Mark Rubin Trust	Offices	14,000,000	403,060	0.47
Avalon Properties	Apartments	21,752,000	386,058	0.45
Zvi Schwarzman Trust	Offices	13,260,000	381,755	0.44
Harley Realty Company	Offices	13,000,000	374,270	0.44
Boston University	Education	12,172,000	350,432	0.41
Boston University	Education	29,352,800	333,833	0.39
Beacon Street Associates	Apartments	13,737,000	311,672	0.36
Andrew Culbert Trust	Retail	10,475,000	301,575	0.35
Total		<u>\$ 289,357,200</u>	<u>\$ 6,733,264</u>	<u>7.83 %</u>

14. FUND BALANCE

The fund balance shown in the general fund financial statements includes surplus revenue and other accounts maintained by the Town in accordance with the Commonwealth's statutes and requirements prescribed by the Bureau of Accounts. At the time the annual budget is approved by the Town Meeting, the amounts of the fund balances, which will be utilized to finance the succeeding fiscal year's operations, are transferred from unappropriated fund balances to appropriated fund balances. The components of the general fund balance at June 30, 1998 are as follows:

Continued appropriations	\$ 6,057,442
Appropriated fund balance:	
Expenditures budgeted for succeeding year	\$ 135,100,988
Revenue budgeted for succeeding year – tax levy and other	(129,734,324)
Other available funds budgeted for succeeding year	<u>(5,366,664)</u>
Free cash budgeted for succeeding year	3,562,222
Unappropriated fund balance – undesignated	<u>11,086,150</u>
General fund balance	<u>\$ 20,705,814</u>

15. FUND EQUITY

The following funds had deficit equity balances as of June 30, 1998:

	Reserved	Unreserved	Total
Special Revenue:			
P.L. 94-482 Occupational Education	\$ -	\$ (36,800)	\$ (36,800)
Special Education PL94-142	5,608	(41,386)	(35,778)
Early Childhood	-	(79,170)	(79,170)
School Lunch Revolving	13,845	(437,170)	(423,325)
Ch 71: 71E Summer School Revolving	-	(48,585)	(48,585)
ACLS Humanities Curriculum Project	-	(580)	(580)
DOE PALMS Challenge	-	(5,141)	(5,141)
Expanding Gifted/Talented Services	-	(1)	(1)
Brookline Early Education Collaborative	-	(94,296)	(94,296)
Teen Dating Violence Prevention	40	(1,240)	(1,200)
Ch 90 Highway Special Revenue	-	(811,582)	(811,582)
Miscellaneous Private Details	-	(3,231)	(3,231)
Animal Control	-	(533)	(533)
Public Safety Damage Recovery	-	(490)	(490)
Ch 78:19A State Library Aid	-	(2,461)	(2,461)
9 Ch 40: 5 Library Damage Recovery	-	(1,302)	(1,302)
Trust and Agency:			
J. Schwartz Exp. Fund	-	(194)	(194)
Aviagdor/Kiwanis Scholarship Exp. Fund	-	(324)	(324)
Dollars for Scholars Exp. Fund	-	(474)	(474)
Brookline Education Assoc. Schl. Exp. Fund	-	(2,003)	(2,003)
Noonan Scholarship Exp. Fund	-	(219)	(219)
Maude Young Scholarship Exp. Fund	-	(358)	(358)
Brookline Youth Concerts Exp. Fund	-	(699)	(699)
Brookline General Scholarship Exp. Fund	-	(4,097)	(4,097)
Class of 1937 Scholarship Exp. Fund	-	(145)	(145)
Edward Finstein Memorial Scholarship Exp. Fund	-	(76)	(76)
Todd Saker Scholarship Exp. Fund	-	(8,505)	(8,505)
Richard T Leary Scholarship Exp. Fund	-	(292)	(292)
Prins Recycling Center Scholarship Fund	-	(30)	(30)
Francis Rogovin Scholarship Exp. Fund	-	(1,006)	(1,006)
Florence Osman Memorial Scholarship Fund	-	(323)	(323)
Mildred Bent Library Fund	-	(40)	(40)
Private Details – Police	-	(377,880)	(377,880)

The deficits in these funds will be eliminated through future federal and state grants, bond issues and other anticipated revenue.

16. OPERATING TRANSFERS

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	General	Special Revenue	Expendable Trusts
Purpose of operating transfers:			
Parking meter receipts	\$ 1,050,000	\$ (1,050,000)	\$ -
Cemetery trust	80,000	(40,000)	(40,000)
Library aid	41,555	(41,555)	-
Golf fund	325,756	(325,756)	-
Chapter 90 highway	762,887	(762,887)	-
Stabilization fund	(740,000)	-	740,000
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,520,198</u>	<u>\$ (2,220,198)</u>	<u>\$ 700,000</u>

17. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance for these risks, except for those risks identified in the following paragraphs, which the Town accounts for in its internal service fund.

Group Health – The Town has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing fund is accounted for as an internal service fund where assets are set aside for claim settlements. Both employees and the Town contribute to the fund based upon a 75% Town and 25% employee primary care premium formula.

The total charge allocated to the general fund is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated based on recent claim settlement trends including frequency and amount of pay-outs. The Town carries insurance on individual medical claims in excess of \$100,000 annually.

Workers' Compensation – The Town provides workers' compensation on a self-insured basis with an insured stop/loss of \$300,000 per accident. Employees injured on the job receive two-thirds of their salary plus 100% reimbursement of related medical expenses. All workers' compensation activity is accounted for in the internal service fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated based on recent claim settlement trends including amount of pay-outs.

Municipal Building Insurance – The Town has adopted Massachusetts General Laws, Chapter 40, Section 13 to create a Municipal Buildings Insurance Fund ("MBIF") to act as a reserve against property losses not covered by insurance and to act as a fund from which premiums for insurance can be paid. All MBIF activity is accounted for in the internal service fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

17. RISK MANAGEMENT (CONTINUED)

Municipal Building Insurance (Continued) – An analysis of claims activities is presented below:

	Beginning of Fiscal Year Liability	Current Year and Changes in Estimates	Actual Claim Payments	Balance at Fiscal Year End
Group health	\$ 995,360	\$7,075,366	\$6,855,726	\$1,215,000
Workers' compensation	1,830,000	792,495	1,405,495	1,217,000
Building insurance trust	-	-	-	-

18. YEAR 2000 READINESS (UNAUDITED)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Town's operations as early as fiscal year 1999.

The Town of Brookline has completed an inventory of application software as well as computers and other electronic equipment with respect to potential year 2000 issues.

- Pentamation provided the Town's financial system. Pentamation expects to complete the upgrade of all Government Resource applications by March 31, 1999. Costs associated for this project are already encumbered. The UNIX operating system and the Informix database engine upgrade are included in this upgrade at an estimated cost of \$5,000. This project is in the remediation stage.
- Tax collection is contracted with Municipal Management Associates, Inc. ("MMA"). A rewrite of this software is in process. MMA is projecting final release by June 30, 1999. Meetings have been held with the vendor to review progress to date. The Town will continue to monitor their progress. This project is in the remediation stage, and since the vendor is absorbing any related expenses, the Town anticipates no additional costs to reach completion.
- The Town's building department has conducted an audit of all energy management functions, as well as security systems and elevators. All are certified year 2000 compliant by their respective suppliers. Independent tests have been conducted without indication of failure. This project is in the validation/testing stage and the Town anticipates no additional costs to reach completion.
- The Town has contracted and installed a new payroll system. This system is year 2000 compliant, as tested and validated by the vendor. This project is in the validation/testing stage and the Town anticipates no additional costs to reach completion.
- A new public safety system is in the process of implementation. It is year 2000 compliant and will be in place before December 1999. Estimated cost to completion is \$20,000. This project is in the assessment stage.

18. YEAR 2000 READINESS (UNAUDITED) (CONTINUED)

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Town of Brookline is or will be year 2000 ready, that the Town of Brookline's remediation efforts will be successful in whole or in part, or that parties with whom the Town of Brookline does business will be year 2000 ready.

19 SUBSEQUENT EVENTS

On December 16, 1998, the Town issued \$11,000,000 of bond anticipation notes at a net interest rate of 3.45% for a one year term. Of this amount, \$7,500,000 was used to pay down notes issued in December 1997. The remaining \$3,500,000 will be used to continue to finance a portion of the \$43,800,000 Brookline High School remodeling project.

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TOWN OF BROOKLINE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNDING PROGRESS OF THE TOWN OF BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM TWO YEARS ENDED DECEMBER 31, 1997

Actuarial Valuation Date*	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability ("AAL")	(3) Unfunded AAL ("UAAL") (1) Minus (2)	(4) Funded Ratio (1) Divided by (2)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) Divided by (5)
January 1, 1996	\$93,285,890	\$156,258,190	\$(62,972,300)	59.7%	\$36,686,332	171.7%
January 1, 1998	121,604,190	192,305,540	(70,701,350)	63.2	40,150,666	176.1

*Only two years of information are available

See note to required supplementary information.

TOWN OF BROOKLINE, MASSACHUSETTS

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION TWO YEARS ENDED DECEMBER 31, 1998

1. ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

- *Valuation Date* – January 1, 1998
- *Actuarial Cost Method* – Individual Entry Age Normal Cost Method
- *Amortization Method* – Level amortization
- *Remaining Amortization Period* – 30 years
- *Asset Valuation Method* – Valued at market value as reported by the Public Employees Retirement Administration Commission.
- *Actuarial Assumptions:*
 - Investment rate of return – 8%
 - Projected salary increases – 5.5%
 - Cost-of-living adjustments – 3.0%

* * * * *

TOWN OF BROOKLINE, MASSACHUSETTS

**SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF TREASURER'S CASH
AND CASH EQUIVALENTS
JUNE 30, 1998**

CASH AND CASH EQUIVALENTS ARE COMPRISED OF:

General fund	\$25,112,803
Special revenue fund	3,283,669
Capital projects fund	18,381,935
Internal service fund	3,635,295
Trust and agency funds	<u>3,028,020</u>

TOTAL	<u><u>\$53,441,722</u></u>
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AS OF JUNE 30, 1998, CASH AND CASH EQUIVALENTS ARE COMPRISED
OF THE FOLLOWING BALANCES:

Massachusetts Municipal Depository Trust	\$46,937,010
Boston Safe Deposit & Trust	564,533
Fleet Bank	1,168,110
BankBoston	2,633,970
Century Bank & Trust	323,949
State Street Bank and Trust	115,328
Brookline Savings Bank	419,060
U.S. Trust	526,702
Certificates of deposit	70,401
Smith Barney – short-term investments	675,949
Other short-term investments	<u>6,710</u>

TREASURER'S CASH AND CASH EQUIVALENTS, JUNE 30, 1998	<u><u>\$53,441,722</u></u>
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SUPPLEMENTAL SCHEDULE II

TOWN OF BROOKLINE, MASSACHUSETTS

**SUPPLEMENTAL SCHEDULE OF TAXES
YEAR ENDED JUNE 30, 1998**

	Uncollected, July 1, 1997	Add Commitments	Less Abatements	Add Cash Refunds	Add Other Deductions	Less Collections	Uncollected, June 30, 1998
REAL ESTATE	\$ 1,398,855	\$ 85,941,829	\$ 1,220,383	\$ 1,013,538	\$ (240,473)	\$ 85,909,046	\$ 984,320
PERSONAL PROPERTY	9,518	1,935,857	41,087	1,898	81,275	1,926,587	60,874
MOTOR VEHICLE EXCISE	<u>1,522,247</u>	<u>4,595,377</u>	<u>465,681</u>	<u>81,781</u>	<u>-</u>	<u>4,191,132</u>	<u>1,542,592</u>
TOTAL	<u>\$ 2,930,620</u>	<u>\$ 92,473,063</u>	<u>\$ 1,727,151</u>	<u>\$ 1,097,217</u>	<u>\$ (159,198)</u>	<u>\$ 92,026,765</u>	<u>\$ 2,587,786</u>

SUPPLEMENTAL SCHEDULE III

TOWN OF BROOKLINE, MASSACHUSETTS

**SUPPLEMENTAL SCHEDULE OF COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 1998**

EQUALIZED VALUATION – Personal property and real estate, June 1, 1998		<u>\$ 5,596,517,500</u>
DEBT LIMIT – 5% of equalized valuation		\$ 279,825,875
AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT:		
Total bonded debt	\$ 56,005,040	
Less bonded debt not included in computation of legal debt margin as defined in Massachusetts Statutes	<u>24,698,040</u>	<u>31,307,000</u>
LEGAL DEBT MARGIN		<u>\$ 248,518,875</u>